



IMMIGRATION POLICY CENTER

...providing factual information about immigration and immigrants in America

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The Economic Impact of Immigration

Most studies claiming to calculate the net “costs” of immigration to the U.S. economy suffer from one or more fatal flaws:

- They rely upon single-year “snapshots” of the immigrant population that fail to account for the fact that the income levels and tax contributions of immigrants increase over time and from generation to generation;
- They count the education and care of the U.S.-born children of immigrants as “costs” incurred by immigrant households, but classify these same children as “natives” when they are working, tax-paying adults;
- They do not consider economic contributions such as consumer purchasing power and the formation of businesses, both of which create jobs and provide federal, state and local governments with additional revenue through sales, income, business, and property taxes;
- They assign inappropriate “costs” to immigrants such as federal expenditures for border enforcement.

More comprehensive studies that seek to avoid these pitfalls have found that...

...Immigrants are a net fiscal benefit to the U.S. economy

- According to a 1997 study by the National Research Council, “The average fiscal impact of immigrants...is positive in part because they tend to arrive at young working ages, in part because their descendants are expected to have higher skills and incomes, in part because they pay taxes for some items, such as national defense and interest on the federal debt, for which they do not impose costs, and in part because they will help to pay the public costs of the aging baby-boom generations.”¹
- The National Research Council study concluded that “the economic benefits of immigration run as much as \$10 billion a year. In addition, the economic benefits of immigration that operate only through lower prices, without displacing or disadvantaging competitive domestic labor, add to the positive effects of immigration.”²
- The 2002 *Economic Report of the President* estimates that immigrants made a net contribution to the U.S. Gross Domestic Product of “between \$1 billion and \$14 billion” in 2000.³

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...Immigrants pay more in taxes than they consume in public benefits

- The National Research Council estimated in 1997 that “the average immigrant pays nearly \$1,800 more in taxes than he or she costs in benefits.”⁴ However, the net tax contribution of an immigrant and his or her descendants is \$80,000: +\$105,000 at the federal level, but -\$25,000 at the state level.⁵
- The National Research Council concluded that immigration has different fiscal impacts at the state and federal levels primarily for two reasons: “First, state and local investments in education pay off in higher tax payments later in life, although only a portion of the payoff is at the state and local level; the remainder is at the federal level, where tax payments are also raised. Second, at the state and local level, an individual or a household typically first receives costly services and transfers, particularly for education, and then in a sense pays for them later in life through taxes...At the federal level, the opposite occurs: workers pay taxes first, and receive their pension and health care benefits about 30 years later on average.”⁶
- According to a 1998 study by the National Immigration Forum and the Cato Institute, immigrant households and businesses paid \$162 billion in taxes to federal, state, and local governments in 1997. The study found that immigrants become net economic contributors after 10 to 15 years in the United States.⁷

...Immigrants contribute to the Social Security system

- The Social Security Administration (SSA) concluded in 2001 that undocumented immigrants “account for a major portion” of the billions of dollars paid into the Social Security system under names or social security numbers that don’t match SSA records and which payees therefore can never draw upon.⁸ As of July 2002, these payments totaled \$374 billion.⁹
- A 2005 study by the National Foundation for American Policy calculated that “over the next 50 years, new legal immigrants entering the United States will provide a net benefit of \$407 billion in present value to America’s Social Security system.”¹⁰

...Immigrants create jobs

- According to a 1994 Urban Institute study, “immigrants create more jobs than they themselves fill. They do so directly by starting new businesses and indirectly through their expenditures on U.S. goods and services.”¹¹
- According to the Selig Center for Economic Growth at the University of Georgia, Latino buying power totaled \$798 billion in 2006 and is expected to increase to \$1.2 trillion by 2011.¹² Asian buying power totaled \$427 billion in 2006 and is expected to increase to \$622 billion by 2011.¹³

- According to the U.S. Census Bureau, in 2002, 1.6 million Hispanic-owned firms provided jobs to 1.5 million employees, had receipts of \$222 billion, and generated payroll of \$36.7 billion.¹⁴ The same year, 1.1 million Asian-owned firms provided jobs to 2.2 million employees, had receipts of \$326.4 billion, and generated payroll of \$56 billion.¹⁵
- Given that 40 percent of the 41.9 million Latinos and 67.3 percent of the 12.5 million Asians in the United States were foreign-born as of 2005,¹⁶ this amounts to hundreds of billions of dollars in immigrant purchasing power and entrepreneurship.
- A 2002 study by the Center for Urban Economic Development at the University of Chicago found that undocumented immigrants in the Chicago metropolitan area alone spent \$2.89 billion in 2001. These expenditures stimulated “an additional \$2.56 billion in local spending,” for a total of \$5.45 billion in additional spending, or 1.5% of the Gross Regional Product. This spending, in turn, sustained 31,908 jobs in the local economy.¹⁷
- A 2005 report from the Ewing Marion Kauffman Foundation found that “immigrants have substantially higher rates of entrepreneurship than U.S.-born individuals.” During the 1996-2004 period, 0.46 percent of immigrants created a new business, compared to 0.35 percent of natives.¹⁸

...Immigrants are a driving force in the housing market

- According to Harvard University’s Joint Center for Housing Studies, in 2001 there were more than 5.7 million foreign-born homeowners in the United States, representing \$1.2 trillion in home value and \$876 billion in home equity.¹⁹ In addition, “household growth, the primary driver of housing demand, may well exceed 12 million between 2000 and 2010” and immigrants will “contribute more than one-quarter of this net increase.”²⁰

...Immigrants do not undermine the wages of most native-born workers

- Harvard economist George J. Borjas, who is now commonly cited by critics of immigration, concluded earlier in his career that “modern econometrics cannot detect a single shred of evidence that immigrants have a sizable adverse impact on the earnings and employment opportunities of natives in the United States.”²¹
- The National Research Council concluded in 1997 that “the impact of immigration on the wages of competing native-born workers is small—possibly reducing them by only 1 or 2 percent”²² and that “the numerically weak relationship between native wages and immigration is observed across all types of native workers, white and black, skilled and unskilled, male and female.”²³
- A 2006 study by University of California, Davis, economist Giovanni Peri found that because immigrant workers generally “complement”—rather than substitute for—native workers in terms of their education and skills, immigration tends to increase the productivity, and therefore the wages, of natives. According to Peri, between 1990 and

2004, the 90 percent of native-born workers with at least a high-school diploma experienced wage gains from immigration ranging from 0.7 percent to 3.4 percent, depending on education. Native-born workers without a high-school diploma lost only 1.1 percent of their real yearly wages due to immigration.²⁴

- A 2004 study by University of California, Berkeley, economist David Card found that, despite the large influx of immigrants without a high-school diploma from 1980 to 2000, the wages of U.S.-born workers without a diploma relative to the wages of U.S.-born workers with a diploma “remained nearly constant.”²⁵

...Immigrants climb the socioeconomic ladder

- According to a 2003 RAND Corporation study, “2nd and 3rd-generation Hispanic men have made great strides in closing their economic gaps with native whites. The reason is simple: each successive generation has been able to close the schooling gap with native whites which then has been translated into generational progress in incomes. Each new Latino generation not only has had higher incomes than their forefathers, but their economic status converged toward the white men with whom they competed.”²⁶
- The 2001 Urban Institute study found that “By the second generation, immigrants overall end up doing as well as, or in some instances, better than third generation non-Hispanic white natives in terms of their educational attainment, labor force participation, wages, and household income.”²⁷

Endnotes

¹ James P. Smith & Barry Edmonston, eds., *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*. Washington, DC: National Research Council, National Academy of Sciences Press, 1997, p. 353.

² *ibid.*, p. 220.

³ *Economic Report of the President*, U.S. Government Printing Office, February 2002, p. 270.

⁴ James P. Smith & Barry Edmonston, *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*. Washington, DC: National Research Council, National Academy of Sciences Press, 1997, p. 349.

⁵ *ibid.*, p. 351.

⁶ *ibid.*, p. 347-348.

⁷ Stephen Moore, *A Fiscal Portrait of the Newest Americans*. Washington, DC: National Immigration Forum & Cato Institute, 1998.

⁸ Office of the Inspector General, Social Security Administration, *Obstacles to Reducing Social Security Number Misuse in the Agriculture Industry* (Report No. A-08-99-41004), January 22, 2001, p. 12.

⁹ Office of the Inspector General, Social Security Administration, *Follow-Up Review of Employers with the Most Suspended Wage Items* (Report No. A-03-03-13026), October 30, 2003, p. 1.

¹⁰ Stuart Anderson, *The Contribution of Legal Immigration to the Social Security System*. Arlington, VA: National Foundation for American Policy, February 2005 (revised March 2005), p. 1.

¹¹ Michael Fix & Jeffrey S. Passel, *Immigration and Immigrants: Setting the Record Straight*. Washington, DC: Urban Institute, May 1994, p. 47.

¹² Jeffrey M. Humphreys, “The multicultural economy 2006,” *Georgia Business and Economic Conditions*, Third Quarter 2006, Vol. 66. No. 3, p. 6.

¹³ *ibid.*, p. 4.

¹⁴ U.S. Census Bureau, *Hispanic-Owned Firms: 2002* (SB02-00CS-HISP), 2002 Economic Census, Survey of Business Owners, Company Statistics Series, March 2006, Table 8: Statistics for Hispanic-Owned Firms by Kind of Business and Receipts Size of Firm: 2002, p. 267.

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- ¹⁵ U.S. Census Bureau, *Asian-Owned Firms: 2002* (SB02-00CS-ASIAN), 2002 Economic Census, Survey of Business Owners, Company Statistics Series, May 2006, Table 8: Statistics for Asian-Owned Firms by Kind of Business and Receipts Size of Firm: 2002, p. 277.
- ¹⁶ 2005 American Community Survey, Table B06004D: Place of Birth by Race (Asian Alone) in the United States and Table B06004I: Place of Birth by Race (Hispanic or Latino) in the United States.
- ¹⁷ Chirag Mehta, Nik Theodore, Iliana Mora & Jennifer Wade, *Chicago's Undocumented Immigrants: An Analysis of Wages, Working Conditions, and Economic Contributions*. Chicago, IL: Center for Urban Economic Development, University of Illinois at Chicago, February 2002, p. 34.
- ¹⁸ Robert W. Fairlie, *Kauffman Index of Entrepreneurial Activity*. Kansas City, MO: Ewing Marion Kauffman Foundation, 2005, p. 1.
- ¹⁹ Rachel Bogardus Drew, *New Americans, New Homeowners: The Role and Relevance of Foreign-Born First-Time Homebuyers in the U.S. Housing Market*. Cambridge, MA: Joint Center for Housing Studies, Harvard University, August 2002, p. 2.
- ²⁰ Joint Center for Housing Studies, *The State of the Nation's Housing: 2003*. Cambridge, MA: Harvard University, 2003, p. 3.
- ²¹ George Borjas, *Friends or Strangers: The Impact of Immigrants on the U.S. Economy*. New York, NY: Basic Books, 1990, p. 80-81.
- ²² James P. Smith & Barry Edmonston, eds., *The New Americans: Economic, Demographic, and Fiscal Effects of Immigration*. Washington, DC: National Research Council, National Academy of Sciences Press, 1997, p. 220.
- ²³ *ibid.*, p. 223.
- ²⁴ Giovanni Peri, *Rethinking the Effects of Immigration on Wages: New Data and Analysis from 1990-2004*. Washington, DC: Immigration Policy Center, American Immigration Law Foundation, October 2006, p. 2.
- ²⁵ David Card, *Is the New Immigration Really So Bad?* (CDP No 02/04). Centre for Research and Analysis of Migration, Department of Economics, University College, London, April 2004, p. 23.
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- ²⁷ Michael Fix, Wendy Zimmermann & Jeffrey S. Passel, *The Integration of Immigrant Families in the United States*. Washington, DC: Urban Institute, July 2001, p. 19.